

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3845-01
BILL NO.: HB 1583
SUBJECT: Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: February 7, 2000

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|-------------------|-----------------------|-----------------------|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| General Revenue | (\$82,465) | (\$20,692,955) | (\$20,895,279) |
| | | | |
| Total Estimated Net Effect on <u>All</u> State Funds | (\$82,465) | (\$20,692,955) | (\$20,895,279) |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|------------|------------|------------|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| Local Government | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration (COA)** state this proposal would exempt the first \$250 of interest income from Missouri's individual income tax.

COA staff states that in tax year 1997, 1,320,665 Missouri tax returns reported taxable interest of \$3,475,384,000 according to the Spring 1999 Statistics of Income published by the IRS. Using those figures, COA calculated an average of \$2,632 of interest income per return. Since the average interest income per return is well above \$250, it was assumed that every return would take the full \$250 exemption. A 6% marginal rate was assumed. The number of returns was assumed to grow one percent annually.

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction in determining Missouri adjusted gross income for the first \$250 of interest income.

According to the Spring 1999 Federal Statistics of Income Bulletin, there are 1,320,665 Missouri taxpayers with taxable interest reported on the federal return. The Division of Taxation also indicates there are 30,000 S corporations that will also be eligible for this deduction. The Division of Taxation will need ten Tax Season Temporary employees, one for every 130,000 returns filed with this deduction. The number of errors and pieces of correspondence generated from this deduction is unknown at this time. The Division will need one Tax Processing Tech I for every 30,000 errors and one Tax Processing I for every 3,000 pieces of correspondence received, and will request these FTE through the normal budget process.

This legislation will require modifications to the individual and corporate income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of contract labor, a cost of \$41,617. Modifications to tax returns and schedules will be completed with existing resources.

Oversight, for purposes of this fiscal note, has allowed the 10 temporary employees, but assumed the Division of Taxation could handle the programming provisions of this proposal utilizing 260 hours of overtime at a cost of \$5,202. In addition to the programming changes, Oversight has allowed \$1,689 in funding for State Data Center changes.

This proposal would result in a decrease in Total State Revenues.

| <u>FISCAL IMPACT - State Government</u> | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|---|---------------------|---------|---------|
|---|---------------------|---------|---------|

| <u>FISCAL IMPACT - State Government</u> | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|---|--------------------------|------------------------------|------------------------------|
| GENERAL REVENUE FUND | | | |
| <u>Loss to General Revenue Fund</u> | | | |
| Interest Income Exemption | \$0 | (\$20,600,000) | (\$20,800,000) |
| <u>Cost to General Revenue Fund</u> | | | |
| <u>Department of Revenue (DOR)</u> | | | |
| Personal Service (10) | (\$64,691) | (\$71,094) | (\$72,871) |
| Fringe Benefits | (\$17,774) | (\$21,861) | (\$22,408) |
| Expense and Equipment | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Total Administrative <u>Costs</u> DOR | (\$82,465) | (\$92,955) | (\$95,279) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>(\$82,465)</u> | <u>(\$20,692,955)</u> | <u>(\$20,895,279)</u> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|---|---------------------|---------|---------|
| | \$0 | \$0 | \$0 |

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill exempts the first \$250 per year of interest income received by a taxpayer from the individual income tax.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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Office of Administration
Department of Revenue

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large, circular initial "J" and a long, sweeping horizontal stroke at the end.

Jeanne Jarrett, CPA
Director
February 7, 2000